



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

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SIMS-WHITNEY UTILITIES AUTHORITY
ARENAC COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2008

AUDITORS' REPORT

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November 21, 2008

Independent Auditors' Report

Members of the Authority Board
Sims-Whitney Utilities Authority
Arenac County, Michigan

We have audited the accompanying financial statements of the business-type activities of the Sims-Whitney Utilities Authority, Arenac County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements, as listed in the index. These financial statements are the responsibility of the Sims-Whitney Utilities Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities of the Sims-Whitney Utilities Authority, Arenac County, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.

SIMS-WHITNEY UTILITIES AUTHORITY
730 N HURON
AUGRES, MI 48703

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Sims-Whitney Utilities Authority**, (the Authority) we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2008.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$3,559,916 (*net assets*) for the fiscal year reported. Of this amount, \$89,434 (*unrestricted net assets*) represents the portion available for spending.
- The Authority's total net assets decreased by \$61,426.
- The Authority's operating expenses in fiscal year 2007/2008 were \$41,806 higher than fiscal year 2006/2007 due to increases in wages and benefits and operating supplies.
- The Authority's operating revenues in fiscal year 2007/2008 were \$103,286 higher than fiscal year 2006/2007 due to an increase in charges for services.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the financial statements. The notes to financial statements are presented following the Basic Financial Statements, and provide an expansive and thorough view of various aspects of the audited financial statements .

Analysis of Financial Position:

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets, and the Statement of Revenue, Expenses and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority and the changes in them. One can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

Summary of Net Assets:

The following summarizes the net assets of the Sims-Whitney Utilities Authority :

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current Assets	\$ 2,594,607	\$ 2,723,018
Capital Assets – net	<u>3,321,215</u>	<u>3,389,538</u>
Total Assets	<u>5,915,822</u>	<u>6,112,556</u>
Current Liabilities	237,906	209,200
Long-Term Liabilities	<u>2,118,000</u>	<u>2,308,000</u>
Total Liabilities	<u>2,355,906</u>	<u>2,517,200</u>
Net Assets		
Invested in Capital Assets	3,321,215	3,389,538
Restricted for Replacement	149,267	130,217
Unrestricted	<u>89,434</u>	<u>75,601</u>
Total Net Assets	<u>\$ 3,559,916</u>	<u>\$ 3,595,356</u>

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets as of June 30, 2008, amounted to \$3,321,215 (net of accumulated depreciation). This investment in capital assets includes equipment, vehicles and the water system. Capital assets for the Authority increased by \$43,208. Equipment increased mainly due to plant control upgrades. Total depreciation expense for this year amounts to \$111,531 with ending accumulated depreciation being \$1,983,368.

Capital Assets Summary
(Net of depreciation)

Equipment	\$ 54,660
Water System	3,266,555
Vehicles	<u>0</u>

Capital Assets - net \$ 3,321,215

Additional information on capital assets can be found in Note 3 of the audit, notes to financial statements.

Summary of Revenues and Expenses:

The following summarizes the revenues and expenses of the Oscoda-Wurtsmith Airport Authority :

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating revenues	\$ 401,637	\$ 298,351
Non operating revenues	<u>129,692</u>	<u>154,595</u>
Total revenues	<u>531,329</u>	<u>452,946</u>
Depreciation expense	111,531	109,289
Other operating expense	356,916	317,352
Non operating expenses	<u>124,308</u>	<u>147,743</u>
Total expenses	<u>592,755</u>	<u>574,384</u>
Change in Net Assets	(61,426)	(121,438)
Net Assets, Beginning of Year	3,595,356	3,716,794
Prior Period Adjustment	<u>25,986</u>	<u>0</u>
Beginning Net Assets, as Restated	<u>3,621,342</u>	<u>3,716,794</u>
Ending Net Assets	<u>\$ 3,559,916</u>	<u>\$ 3,595,356</u>

Economic Factors and Next Year's Budget and Rates

The management of the Authority considered many factors in setting the fiscal year 2008/2009 budget. The overriding factor has been to keep expenses at or below the amount of revenue. The Authority does not receive any operations or maintenance income from taxes or other outside sources, and is dependent on generating its own operating funds. Since the Authority's creation, revenue has varied from year to year. This is due to maintenance costs for the water system that vary year to year.

The most significant expense remains operating supplies. Following are employee related costs and water purchases. The remaining portion of the budget is prioritized and divided into the various categories such as insurance and bonds, utilities, etc. In addition, every attempt is made to retain a surplus to cover contingencies.

Requests for Information

This financial report is designed to provide a general overview of the Sims-Whitney Utilities Authority finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Fran Semenick, Chairman, 1515 N. Huron Road, Tawas City, Michigan 48763.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

STATEMENT OF NET ASSETS
June 30, 2008
With Comparative Totals for June 30, 2007

	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current Assets:		
Cash and Cash Equivalents (Note 2)	\$ 55,405	\$ 127,756
Investments (Note 2)	120,646	90,874
Receivables:		
Accounts, Net	6,588	8,546
Contracts Receivable (Note 1)	2,319,618	2,469,932
Due from Other Units of Government	64,855	0
Inventories (Note 1)	<u>27,495</u>	<u>25,910</u>
Total Current Assets	2,594,607	2,723,018
Noncurrent Assets:		
Capital Assets, Net (Note 3)	<u>3,321,215</u>	<u>3,389,538</u>
Total Assets	<u>5,915,822</u>	<u>6,112,556</u>
<u>Liabilities</u>		
Current Liabilities:		
Accounts Payable	31,486	12,684
Due to Other Units of Government	6,735	35,251
Accrued Interest Payable	39,685	0
Deferred Revenue	0	1,265
Current Portion of Long-Term Liabilities (Note 4)	<u>160,000</u>	<u>160,000</u>
Total Current Liabilities	237,906	209,200
Long-Term Liabilities:		
Due in More Than One Year (Note 4)	<u>2,118,000</u>	<u>2,308,000</u>
Total Liabilities	<u>2,355,906</u>	<u>2,517,200</u>
<u>Net Assets</u>		
Invested In Capital Assets	3,321,215	3,389,538
Restricted For:		
Replacement (Note 1)	149,267	130,217
Unrestricted	<u>89,434</u>	<u>75,601</u>
Total Net Assets	<u>\$ 3,559,916</u>	<u>\$ 3,595,356</u>

The accompanying notes to financial statements are an integral part of this statement.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	<u>2008</u>	<u>2007</u>
<u>Operating Revenue</u>		
Charges For Services	\$ 386,407	\$ 282,710
Rentals	15,180	15,180
Other Revenue	50	461
Total Operating Revenue	<u>401,637</u>	<u>298,351</u>
<u>Operating Expenses</u>		
Salaries and Wages	70,123	60,637
Payroll Taxes and Employee Benefits	49,726	34,970
Contractual Services	5,174	4,731
Depreciation	111,531	109,289
Insurance and Bonds	11,954	12,195
Operating Supplies	145,129	131,223
Telephone	2,342	2,405
Utilities	14,681	14,163
Vehicle Expense	4,825	3,247
Water Purchases	41,043	40,945
Other	11,919	12,836
Total Operating Expenses	<u>468,447</u>	<u>426,641</u>
Operating Loss	<u>(66,810)</u>	<u>(128,290)</u>
<u>Nonoperating Revenue (Expenses)</u>		
Local Reimbursements	124,308	147,743
Interest and Investment Earnings	5,384	6,852
Interest and Fees Expense	<u>(124,308)</u>	<u>(147,743)</u>
Total Nonoperating Revenue	<u>5,384</u>	<u>6,852</u>
Change in Net Assets	<u>(61,426)</u>	<u>(121,438)</u>
Net assets, beginning of year	3,595,356	3,716,794
Prior period adjustment	<u>25,986</u>	<u>0</u>
Net Assets - Beginning of Year, as Restated (Note 8)	<u>3,621,342</u>	<u>3,716,794</u>
Net Assets - End of Year	<u>\$ 3,559,916</u>	<u>\$ 3,595,356</u>

The accompanying notes to financial statements are an integral part of this statement.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	<u>2008</u>	<u>2007</u>
<u>Cash Flows From Operating Activities</u>		
Receipts From Customers	\$ 334,945	\$ 348,777
Payments to Suppliers	(269,576)	(252,523)
Payments to Employees	(70,123)	(60,637)
Net Cash Provided (Used) by Operating Activities	<u>(4,754)</u>	<u>35,617</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Acquisition and Construction of Capital Assets	(43,208)	(13,896)
Cash Received from Contracts Receivable	150,314	409,000
Reimbursements from Local Units	124,308	147,743
Repayment of Bonds Payable	(150,314)	(409,000)
Interest and Fees Paid on Long-Term Debt	<u>(124,308)</u>	<u>(147,743)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(43,208)</u>	<u>(13,896)</u>
<u>Cash Flows From Investing Activities</u>		
Purchase of Investment Securities	(25,000)	(44,285)
Proceeds from Maturity of Investment Securities	0	97,005
Interest on Investments	611	863
Net Cash Provided (Used) by Investing Activities	<u>(24,389)</u>	<u>53,583</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(72,351)	75,304
Cash and Cash Equivalents at Beginning of Year (Note 1)	<u>127,756</u>	<u>52,452</u>
Cash and Cash Equivalents at End of Year (Note 1)	<u>\$ 55,405</u>	<u>\$ 127,756</u>
<u>Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities</u>		
Operating Loss	\$ (66,810)	\$ (128,290)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	111,531	109,289
Change in Assets and Liabilities:		
Accounts Receivable	1,958	244
Due from Other Units of Government	(38,869)	20,345
Inventory	(1,585)	4,521
Accounts Payable	18,802	(329)
Deferred Revenue	(1,265)	1,265
Due to Other Units of Government	<u>(28,516)</u>	<u>28,572</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (4,754)</u>	<u>\$ 35,617</u>

The accompanying notes to financial statements are an integral part of this statement.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Sims-Whitney Utilities Authority (Authority) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of Authority Operations and Fund Types

The Authority operates as a joint venture under the supervision and control of an elected Board of four members and provides water supply and distribution to its residents for Sims Township and Whitney Township. The Authority was incorporated January 18, 1980 as a joint venture among the above-mentioned municipalities for the purpose of acquiring, owning, improving, enlarging, extending and operating water supply and distribution systems and sewage disposal systems in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended.

Each constituent Township, who are parties to the joint authority, operates and administers their own water department providing services to individual customers of the water system. Those activities of Sims Township and Whitney Township are conducted by the separate governmental entities and are not a part of this report.

The accompanying basic financial statements of the Authority have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, that apply to all proprietary fund type activities, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Authority exercises oversight responsibility have been included in the reporting entity.

Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Authority's Enterprise Fund reports operations that provide services which are financed primarily by user charges or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

C. Basis of Presentation

The Authority's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows. Government wide financial statements report information about the Sims-Whitney Utilities Authority as a whole. The Authority has only one fund which is business-type in nature, so the financial statements present one set of statements that meets both the government-wide and fund requirements.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

A statement of net assets provides information about the assets, liabilities, and net assets of the Authority at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy Authority obligations. Invested in capital assets represents the value of capital assets, net of accumulated depreciation. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operation purposes.

A statement of revenue, expenses and changes in net assets provides information about the Authority's financial activities during the year ended June 30, 2008. Revenue and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions. Operating revenues and expenses generally result from providing water services. Other revenues, such as local reimbursements and interest and investment earnings, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the cost of maintaining the water system, administrative expenses, and depreciation on capital assets.

A statement of cash flows provides information about the Authority's sources and uses of cash and cash equivalents during the year ended June 30, 2008. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

D. Measurement Focus

The term measurement focus is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Authority is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and repurchase agreements, and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

F. Contracts Receivable

Contracts receivable consist of monies due to the Authority from Sims Township and Whitney Township for reimbursement of the various bonds payable of the Authority.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Inventory

Inventories are recorded at average cost which approximates market. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

H. Capital Assets

Capital assets are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

Expenditures for maintenance, repairs and renewals are charged to operations as incurred and betterments are capitalized. The Authority eliminates the cost and related allowances from the accounts for assets sold or retired and resulting gains or losses therefrom are included in operations concurrently. Donated fixed assets are recorded at their fair market values as of the date received.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Estimated Lives</u>
Water system	50 years
Equipment and vehicles	5 years

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Restricted net assets represents the assets to be used for future tower, filter and vehicle replacements.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Authority, these revenues are charges for services for water services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2008.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

M. Charges for Services

Revenue from the sale of water services is billed and recognized by each individual municipality. The Authority recognizes revenue for services as charged to each municipality based on an agreement between the Authority and the municipalities. Each municipality will reimburse the Authority their share of the operating and maintenance budget costs. Variable costs are allocated in direct proportion of gallons pumped per municipality to total gallons pumped by the Authority. Fixed costs are shared equally by the Townships.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Authority's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents	\$ 55,405
Investments	<u>120,646</u>
Total	<u>\$ 176,051</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ <u>176,051</u>
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Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2008, \$0 of the Authority's bank balance of \$182,271 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Interest Rate Risk and Foreign Currency Risk

The Authority's investment policy does not address interest rate risk and foreign currency risk.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The Authority Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Authority to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Authority's deposits and investments are in accordance with statutory authority.

NOTE 3 - CAPITAL ASSETS

A summary of changes in capital asset activity follows:

	Balance 07/01/07	Additions	Deletions	Balance 06/30/08
<u>Business-Type Activities</u>				
Capital Assets Being Depreciated:				
Equipment	\$ 58,905	\$ 40,932	\$ 0	\$ 99,837
Water System	5,188,498	2,276	0	5,190,774
Vehicles	13,972	0	0	13,972
Subtotal	<u>5,261,375</u>	<u>43,208</u>	<u>0</u>	<u>5,304,583</u>
Less Accumulated Depreciation for:				
Equipment	(38,622)	(6,555)	0	(45,177)
Water System	(1,820,408)	(103,811)	0	(1,924,219)
Vehicles	(12,807)	(1,165)	0	(13,972)
Subtotal	<u>(1,871,837)</u>	<u>(111,531)</u>	<u>0</u>	<u>(1,983,368)</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 3,389,538</u>	<u>\$ (68,323)</u>	<u>\$ 0</u>	<u>\$ 3,321,215</u>

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 4 - LONG-TERM LIABILITIES

A. Revenue Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
\$1,161,000 Water Revenue Bond, dated December 18, 1984, due in annual installments through July 1, 2017, bearing interest at a maximum rate of 5% for the purpose of constructing additions, extensions, improvements and related appurtenances to the Sims-Whitney Utilities Authority water system.	\$ <u>0</u>	\$ <u>328,000</u>

B. General Obligation Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
\$815,000 Limited Tax General Obligation Bond, dated March 1, 1999, due in annual installments through October 1, 2018, bearing interest at the rates of 2% to 5% for the purpose of constructing additions, extensions, improvements and related appurtenances to Sims-Whitney Utilities Authority water system.	0	535,000
\$2,265,000 Limited Tax General Obligation Bond, dated December 13, 1999, due in annual installments through August 1, 2019, bearing interest at the rates of 4.4% to 5.9% for the purpose of constructing additions, extensions, improvements and related appurtenances to the Sims-Whitney Utilities Authority water system.	<u>0</u>	<u>1,415,000</u>
Total General Obligation Bonds Payable	<u>0</u>	<u>1,950,000</u>
Total Primary Government	\$ <u><u>0</u></u>	\$ <u><u>2,278,000</u></u>

C. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the Authority for the year ended June 30, 2008:

	<u>Balance 07/01/07</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 06/30/08</u>	<u>Due Within One Year</u>
<u>Business-Type Activities</u>					
Primary Government:					
Revenue Bonds Payable	\$ 358,000	\$ 0	\$ (30,000)	\$ 328,000	\$ 0
General Obligation Bonds Payable	<u>2,110,000</u>	<u>0</u>	<u>(160,000)</u>	<u>1,950,000</u>	<u>160,000</u>
Total Primary Government	\$ <u><u>2,468,000</u></u>	\$ <u><u>0</u></u>	\$ <u><u>(190,000)</u></u>	\$ <u><u>2,278,000</u></u>	\$ <u><u>160,000</u></u>

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

The annual aggregate maturities for all debt outstanding as of June 30, 2008 are as follows:

Bonds Payable	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2009	\$ 0	\$ 0	\$ 160,000	\$ 109,697	\$ 269,697
2010	0	0	191,000	109,082	300,082
2011	0	0	193,000	99,282	292,282
2012	0	0	195,000	89,222	284,222
2013	0	0	202,000	78,785	280,785
2014 - 2018	0	0	1,047,000	225,698	1,272,698
2019 - 2020	<u>0</u>	<u>0</u>	<u>290,000</u>	<u>15,071</u>	<u>305,071</u>
Total	\$ <u>0</u>	\$ <u>0</u>	\$ <u>2,278,000</u>	\$ <u>726,837</u>	\$ <u>3,004,837</u>

NOTE 5 - RETIREMENT SYSTEM - MERS OPERATED

Plan Description

The Authority's defined benefit pension plan, covering its employees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The Authority is required to contribute at an actuarially determined rate. The current rate is 12.86% of annual covered payroll for all employees. If a member leaves the employ of the Authority, or dies, without a retirement allowance or other benefit payable on his/her account, the members' accumulated contributions (with interest) are refunded with spousal consent to the member, if living, or to the members' surviving spouse or beneficiary. The contribution requirements are established and may be amended by the MERS Retirement Board.

Annual Pension Cost

For the year ended June 30, 2008, the Authority's annual pension cost of \$8,130 was equal to the Authority's required and actual contributions.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 5 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/06	\$ 7,124	100 %	\$ 0
06/30/07	\$ 6,564	100 %	\$ 0
06/30/08	\$ 8,130	100 %	\$ 0

The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2007 included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, and (c) additional projected salary increases of 0% to 8.4% per year, depending on age, attributable to merit, longevity and promotions. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of the plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The plans unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2007 was 28 years.

Funded Status and Funding Progress

As of December 31, 2007, the most recent actuarial valuation date, the plan was 89.2% funded. The actuarial accrued liability for benefits was \$147,254, and the actuarial value of assets was \$131,348, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,906. The covered payroll (annual payroll of active employees covered by the plan) was \$61,145, and the ratio of the UAAL to the covered payroll was 26%.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a) / c)</u>
12/31/05	\$ 99,324	\$ 125,873	\$ 26,549	79 %	\$ 57,712	46 %
12/31/06	\$ 115,428	\$ 143,897	\$ 28,469	80 %	\$ 60,128	47 %
12/31/07	\$ 131,348	\$ 147,254	\$ 15,906	89 %	\$ 61,145	26 %

NOTE 6 - UNEMPLOYMENT COMPENSATION

The Authority is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Authority must reimburse the Employment Agency for all benefits charged against the Authority. Accrued unemployment compensation was \$8,666 as of June 30, 2008.

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries and natural disasters, as well as medical benefits provided to employees. The Authority has purchased commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

SIMS-WHITNEY UTILITIES AUTHORITY
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 8 - PRIOR PERIOD ADJUSTMENTS

During 2008, the following prior period adjustment was made to the financials:

In the water fund and business-type activities section of the financial statements it was determined that due from other units of government was understated due to incorrect cut-off information used in the prior year.

The restatements affected by the prior period adjustment is summarized below:

<u>Statement of Net Assets</u>	
<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Net Assets 6/30/07	
\$ 0	\$ 3,595,356
Adjustment to Due from other Units of Government	25,986
Net Assets 6/30/07, as Restated	
\$ 0	\$ 3,621,342

NOTE 9 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations.



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA

Herman A. Bertuleit

November 21, 2008

Members of the Authority Board
Sims-Whitney Utilities Authority
Arenac County, Michigan

We have conducted the audit of the financial statements of the business-type activities of the Sims-Whitney Utilities Authority as of and for the year ended June 30, 2008 and have issued our report dated November 21, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the Authority during the audit and met with management on November 21, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board, others within the Authority and the Michigan Department of Treasury and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Stephenson, Gracik & Co., P.C.

Appendix I

Communication to Those Charged with Governance

Responsibilities Under Generally Accepted Auditing Standards

As stated in our engagement letter dated September 5, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated September 5, 2008.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the Authority during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

We encountered no difficulties during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. A summary of unadjusted audit differences was provided to management on November 21, 2008.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

Appendix I
Communication to Those Charged with Governance

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Appendix II

Management Comments

In planning and performing our audit of the financial statements of the Sims-Whitney Utilities Authority as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Sims-Whitney Utilities Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sims-Whitney Utilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sims-Whitney Utilities Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified the following deficiency in internal control that we consider to be a material weakness.

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Sims-Whitney Utilities Authority's financial statements. However, if at any point in the audit we as auditors are part of the Sims-Whitney Utilities Authority's control system for producing reliable financial statements, auditing standards indicate that the Authority has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

View of Responsible Officials:

The Sims-Whitney Utilities Authority has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Authority to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

The Sims-Whitney Utilities Authority's response to the finding in our audit is described above. We did not audit the Authority's response and, accordingly, we express no opinion on it.

We have also noted another item we feel could improve your internal controls or operating efficiencies. This item is not considered a significant deficiency or material weakness but is presented for your consideration.

PASSWORD PROTECTION

It is our understanding that the computer that maintains the accounting software is currently not password protected; therefore, the accounting system could be altered by unauthorized individuals. In order to help control the accounting environment, we recommend that management adopt policies and procedures requiring the use of passwords. Only the Clerk should have a password to her computer, and this password should be changed at least once every six months.

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation				X
Cash Receipt System	X			